

MINUTES OF THE SPECIAL MEETING
OF THE HOUSING AND COMMUNITY DEVELOPMENT
CORPORATION OF HAWAII
HELD AT THEIR OFFICE AT 677 QUEEN STREET
ON THURSDAY, SEPTEMBER 8, 2005,
IN THE CITY AND COUNTY OF HONOLULU, STATE OF HAWAII

The Board of Directors of the Housing and Community Development Corporation of Hawaii met for a special meeting at 677 Queen Street, on Thursday, September 8, 2005 at 10:05 a.m.

The meeting was called to order by Chairman Charles Sted and, on roll call, those present and absent were as follows:

CALL TO
ORDER/
ROLL CALL

PRESENT: Director Charles King
Designee Rick Manayan
Designee Henry Oliva
Director Charles Sted
Director Travis O. Thompson

Executive Director Stephanie Aveiro

EXCUSED: Director Francis L. Jung
Director Linda Smith

Staff Present: Sandra Ching, Deputy Attorney General
Pamela Dodson, Executive Assistant
Janice Takahashi, Chief Planner
Shirley Befitel, Special Assistant
Marilyn Labayog, Property Management Branch Chief
Barbara Arashiro, Resident Services Section Administrator
Patti Miyamoto, Acting Administrative Services Officer
Darren Ueki, Finance Manager
Sandra Miyoshi, Homeless Program Administrator
Shirley Higa, Board Secretary

Others: Bill Woods
Julia Estrella, ITOR
Bob Nakata, Windward Homeless Coalition

The Chairman declared a quorum present

QUORUM

Executive Director Stephanie Aveiro explained that as a result of previous comments by the Board members about being briefed on the Omnibus Housing Act, staff prepared the For Information to bring the Board up to date as to staff's progress relative to the Act.

Chief Planner Janice Takahashi explained that the purpose of Act 196, or the Omnibus Housing Act, was to address the critical affordable housing and homelessness problems facing Hawaii. The intention of the Act is to implement the recommendations of the Affordable Housing Task Force established by Governor Lingle.

FOR
INFORMA-
TION -
DIS-
CUSSION
OF
ACT 196
(THE
OMNIBUS
HOUSING
ACT),
SESSION
LAWS OF
HAWAII
2005

Ms. Takahashi reviewed the major provisions of the Act:

- Provide financial and other incentives to develop affordable housing by including general excise tax exemptions for privately-sponsored rental housing projects meeting certain income requirements and conveyance tax exemptions for low-income housing developments;
- Additional resources to develop affordable housing by raising the low-income housing tax credits from 30% to 50% of qualified basis; authorizing Rental Housing Trust Fund (RHTF) grants for rental units for those at or below 30% median family income and also allowing the Dwelling Unit Revolving Fund (DURF) to make permanent and second mortgage loans;
- More flexibility in the usage of the RHTF funds by repealing the RHTF Advisory Commission and prioritizing the RHTF funding to include mixed-income rental projects for families at or below 140% of the median family income;
- Placed a two-year moratorium on the demolition of State public housing and authorized HCDCH to offer the decommissioned State public housing projects to non-profit organizations for up to 99 years for \$1.00 per year for rehabilitation into emergency transitional shelter facilities for the homeless or rental housing where at least 50% of the units are affordable to families earning 50% or below the median income;
- Provides for the transfer of responsibility and administration of various revolving funds such as the RHTF, DURF in the event that HCDCH is declared to be in substantial default of the U.S. Department of Housing and Urban Development (HUD) Memorandum of Agreement (MOA);
- Establishes a joint legislative housing and homeless task force to further identify near-term solutions to Hawaii's affordable rental housing and homeless problems. This task force recently toured properties such as Puahala Homes, Kuhio Park Terrace, Kamakee Vista, Wilder Vista, and Palolo Homes;
- Separates the HCDCH into the Hawaii Housing Finance and Development Administration (FD) and Hawaii Public Housing Administration (PHA); and
- Requires HCDCH to submit a plan to implement the Act with the reorganization of the State's functions and submit to the Legislature 20 days prior to the 2006 Legislature.

Ms. Takahashi explained that the Affordable Housing Task Force recommended splitting HCDCH into two separate entities in order to concentrate more effectively on the development of affordable housing. The state's current role in affordable housing is administering the State's public housing programs as well as financing and developing affordable housing.

HCDCH will then become two entities as of July 1, 2006 as follows:

- Hawaii Housing Finance and Development Administration (FD)

Will be administratively attached to the Department of Business and Economic Development and Tourism (DBEDT) and will be governed by a nine-member board of directors. In addition to the six public members, the Directors of DBEDT and Finance will be on the board as well as a representative from the Office of the Governor.

The FD will be the state's housing advocate and information system; provide housing research and counseling as well as provide services for federal programs which are required to be done by a housing finance or housing development entity;

Develop, construct and sell, lease or rent dwelling units with an eligible developer or on its own. FD would not be limited to residential units but commercial, industrial and other properties if it is determined that it would preserve the lifestyles of the residential development; approve exemptions from general excise tax should the developer meet the eligibility criteria for newly constructed, or moderately or substantially rehabilitated projects; and

Financing would include bond issuance for infrastructure development or multi-family and single family homes; interim construction financing through the Dwelling Unit Revolving Fund (DURF) or the Rental Assistance Revolving Fund; permanent financing through DURF; gap equity financing through RHTF; federal and state low-income housing tax credits; project-based rental assistance under the Rental Assistance Payments Program; and mortgage financing for special groups.

The other entity would become:

- Hawaii Public Housing Administration (PHA)

Administratively attached to the Department of Human Services (DHS);

The PHA is governed by a nine-member board of directors; eight members shall be from the public representing all four counties; another member shall represent someone who receives assistance from a federal low-rent housing program; and the Director of DHS shall also serve on the board;

The PHA shall be responsible for all federal housing programs that include Section 8 and State Rent Supplement; management of federal and state low-income housing; teacher housing; elderly housing; and homeless assistance programs.

Ms. Takahashi stated that Executive Director Stephanie Aveiro, Executive Assistant Pamela Dodson and Special Assistant Shirley Befitel have been meeting with staff. Meetings with other affected State departments, labor unions and public members such as the legislators, to inform them of the planned split, have also started. As the split is effective July 1, 2006, staff intends to share its draft implementation plan, supplemental budget and proposed requests relative to the split to the next Legislature with the Board. In December 2005, staff intends to request for the Board's final approval of the implementation plan and its report to the Legislature.

Chairman Sted asked about the agency's status relative to HUD and the level of risk that was perceived at the time the Legislature passed the bill as compared to the risk level now which should be relatively low due to the accomplishments by staff in regaining the agency's standing with HUD.

Ms. Aveiro agreed about the accomplishments by staff and shared with the Board her recent meeting with Michael Flores of HUD. The MOA was discussed and each item was reviewed to determine whether it could be closed or had to remain open. Ms. Aveiro stated that it was agreed to amend the MOA to include the remaining outstanding items which include tenant accounts receivables, work orders, occupancy rates, and management informational systems.

HUD has agreed that there has been tremendous progress and that HCDCH is not at risk of being taken into receivership by HUD.

Ms. Aveiro further reported that the MOA would be in existence as long as the agency is "troubled" in more than one area. In reviewing the scores of current assessments, staff is confident that the agency is not troubled in more than one area. However, this troubled status of the agency cannot be removed until the final audited financial statements are reviewed, which is not due to HUD until March 2006.

Director Thompson stated that in the process of the splitting of the organization, there is no indication of HUD approval either at the local or national level. He asked how the agency plans to handle this, as this would change the makeup of the organization as they are both intertwined with the MOA.

Ms. Aveiro stated that HUD is considered one of the external stakeholders who are very much aware of Act 196 and are generally supportive of caring out the Finance and Development areas. The splitting of the agency was an MOA item that was addressed by the agency as not being in favor of it. This same position was provided to the Legislature. HUD approval of the split is not a requirement of the MOA.

Director Thompson commented that there should be written assurance from HUD as the HCDCH is preparing to change organizationally; it is likely that there will still be some interaction between the two newly formed agencies.

Ms. Aveiro stated that this could be done adding that Mark Chandler, who is in charge of the Community Development Block Grant (CDBG), HOME, ESG and HOPWA funds, is very supportive of the planned split.

Chairman Sted agreed with Director Thompson suggesting that a formal inquiry of HUD and, as with every other aspect of this agency split, ask HUD about any requirements, if any, they may have relative to the split. The Chair also commented that he did not believe that the agency should be divided. Although he did not expand on his position, his reasoning behind it was that the effort that would be required by staff to implement the split would be a distraction from the ability to regain the status with HUD.

The Chair again noted the great strides that staff has made thus far with regaining its status with HUD. He expressed his concern about the time and energy of staff on the split, may have an affect on the agency's continual progress in the right direction with its standing with HUD.

Ms. Aveiro agreed with the Chair that at the time the Legislative hearings were being conducted, the inclusion to implement the splitting of the agency would not be wise due to the timing with the agency's attention with the MOA. However, staff was able to change its course of direction and is able to continue its progress with the MOA as well as with implementing the split that should take the agency to the next higher level.

Director Thompson expressed his concerns about the financial status of the two entities once the split occurs noting that one entity could be in financial trouble due to the lack of revenues. An agency split in the private sector is a lengthy process and staff is undertaking the task at such an accelerated speed that should anything not be addressed correctly, the Board members must ultimately take responsibility.

MS. Aveiro stated that staff has the same concerns but believe that it is already in position to split as the funds are not comingled.

Director Thompson commented that the previous administration had a drive to consolidate the agencies because of the cost savings. The opposite would occur due to staffing of duplicate workload.

Ms. Aveiro responded that staff is assuming that the Legislature realized that when they passed the bill out; staff will need to request additional funds to implement the split.

The Chair agreed with Director Thompson, that all parties should understand that when the split occurs, the balance sheet of the FD should be in place showing the assets, liabilities, equities, revenues and expenses. This balance sheet should be sustainable and have a positive equity figure. On the PHA side, the funds flow will need to be adequate to sustain the PHA side.

The Chair then asked if in the project plan, there is a step that includes financial models that would be created and available to the Board.

Ms. Aveiro stated that the funds that will go with the FD side, would go to DBEDT; all other funds will remain with DHS. Administrative fees derived from the various funds such, as DURF and RHTF, are able to sustain the FD side.

Finance Branch Manager Darren Ueki stated that the programs on the FD side are self-sustaining and are able to maintain certain aspects of the programs. Staff is continuously monitoring the expenses to ensure that the fees are able to cover the expenses. Should it be determined that the expenses are increasing on a regular basis, then staff may request Board's approval to increase its fees charged to the developers accordingly. Although he is unable to comment on the PHA side, Mr. Ueki stated that he believes that the Executive Director and staff are aware of the project based accounting and how the income generated must be able to cover the expenses. He further stated that in the past, although it was believed that there would be cost savings in consolidating the two agencies, the impact was very minimal due to the different functions staff had with the different program areas.

Chairman Sted noted that with the bond-related information such as the indentures and covenants, that the economic activity by the FD side would be positive which provides a comfort level for the Board. However, if staff can provide more detailed financial information such as the starting balance of the FD and the PHA, it would give a higher level of comfort to the Board regarding the split. Other information that staff could provide would be the projected bond rating of FD once the split is effectuated.

Mr. Ueki stated that the general obligation bond rating of the agency had experienced a drop during the past two years. Moody's, which rated the agency, was very specific that it had lowered the bond rating due to its concerns with the agency and HUD. It is therefore believed that once the split occurs, the agency's bond rating should improve. Currently the rating is A2 with a negative outlook.

Ms. Aveiro stated that the financial information could be provided later as the move to split progresses. This would definitely had to be done with the PHA side, as it will be using project based accounting. Currently, it is being determined which personnel is going to be on which side and then it can be determined how much personnel is needed on both sides.

Chairman Sted stated that he is not suggesting that the financial pro forma be done by the next regular Board meeting; he is, however, suggesting that when staff submits its request to the Legislature for any enabling legislation that would be needed for the split, that it identify any financial shortfall that may need to be addressed by the Legislature.

Designee Oliva commented that when Act 51 was enacted which split some of the functions from the Department of Accounting and General Services (DAGS), Department of Human Resources and Development (DHRD) and other agencies, there was a task force which focused and identified specific areas of concerns such as personnel and financial, which would formulate and recommend legislation that would resolve these issues as a result of the split.

Ms. Aveiro stated that there is a team comprised of herself, Executive Assistant Pamela Dodson, Chief Planner Janice Takahashi, Finance Branch Manager Darren Ueki, Acting Administrative Services Officer Patti Miyamoto and Special Assistant Shirley Befitel. Discussions have taken place, which included personnel issues, which established guidelines as to the split such as how the personnel will be assigned to the two entities. Some personnel, such as those in the Finance and Development Branches, know that they will be in the FD side. Everyone would remain with PHA. In those cases where personnel may have dual responsibilities and work on both sides, they will be given a choice. The choice, is based on the funding source, functional statement and seniority with the State. Ms. Aveiro further stated that since the transition team is very cognizant of the employees' concern as to which entity they will be assigned to, meetings have been held with all employees to ensure that everyone is aware of this procedure. Due to this, she believes that the employees are receptive to the split and its process.

Director King asked if DBEDT would be involved in the timeline.

Ms. Takahashi stated that DBEDT has been and will be continuously consulted throughout the process. Ms. Aveiro added that discussions have been held with DBEDT relative to the services that they may be able to provide after the split such as Information Technology. This type of service is what discussions have evolved around as then the transition team can determine what personnel is needed for the various areas. As the PHA side will remain with DHS, fewer discussions have been held as it has already been established as to what support services DHS currently provides.

Director Thompson asked if Designee Oliva could expand on the process that they followed when the splitting of functions was done due to Act 51.

Designee Oliva explained that an Inter-Agency Task Force was formed. All parties that would be involved which included Attorney General Mark Bennett, Budget and Finance (B&F) Director Georgina Kawamura, as well as the private sector, to determine the best process to use. Specific issues were identified in order that they are correctly addressed by the responsible agency.

Ms. Aveiro stated that in addition to the personnel issues, office space, inventory and equipment, as well as records management issues have been discussed to ensure that they are addressed before or after July 1. The hiring of personnel would probably be done through the end of 2006.

As some of the staff has already been through the first split of the agency in 1987, a checklist that was used at that time is also being used for the upcoming split as a guideline. Activities that need to be done that are not on this checklist are added as things to do. This checklist is detailed to the point that it indicates when a corporate seal should be ordered.

Designee Manayan asked if FD has its own inventory list of equipment. Ms. Aveiro answered that it does have its own separate inventory noting that if the purchases were made with Federal funds, then it would be cost allocated accordingly. Staff however is cognizant of this and will ensure that purchases made with Federal dollars be kept with the PHA side. Ms. Aveiro further stated that it has been determined that the FD side would remain the Queen Street offices and PHA would be located at the School Street offices.

Director Thompson referred to the Affordable Housing Task Force Report that indicated that the splitting process would take 2-6 years yet the agency is attempting to do it in a matter of months. The proposed schedule to accomplish the split considering the 400 employees as well as the numerous properties involved, is phenomenal due to the complexity of the issues that will need to be addressed. He asked Ms. Aveiro to what extent does she believe that the agency is in strict compliance with the Legislative act.

Ms. Aveiro stated that she believes that when the Legislators made the decision to split the agencies, that little consideration was given to the intricate details that would need to be addressed. Specific details were not addressed. The intent of the Act is being complied with as far as the split between FD and PHA; however there will be some issues that cannot be done by the July 1 date, which will be explained in the transition plan. Ms. Aveiro further stated that she believes that the transition plan will demonstrate that staff has embraced the legislature's intent to split the agency, has accomplished much within a short period of time, but anticipates being faced with challenges later in the process. One example was the hiring of new personnel that cannot be done until the positions are authorized and then the hiring process can begin. However, it is not known who will be doing the work in the interim. These are the types of challenges that will be addressed in the transition plan. Ms. Aveiro stated that DHS and DBEDT, the Departments that PHA and FD are administratively attached to, may have to provide this support during the interim and must be prepared to do so if necessary.

She continued that staff would like to suggest to the Legislators that the State low-rent projects and elderly projects be in the FD side as they are State assets and not Federal assets. These projects should have their own rules and regulations and not have to abide by Federal rules and regulations as they currently do. This suggestion is a result of the Task Force's recommendation that should the agency be in receivership by HUD, that all the State assets be immediately transferred to the B&F. Due to the Legislature's concerns about the State's assets, her goal is to have the State properties retained as State assets and not on the federally-funded PHA side.

As this may be a philosophical question, she is looking for the Board's concurrence that this is what staff should pursue. Staff would discuss this with the Legislators about going forward with this beforehand should the Board agree. Ms. Aveiro further stated that her goal would be to have the PHA side strictly Federal funded. This would simplify matters immensely as the PHA side would no longer have to report to HUD on properties that are not federally funded.

Designee Oliva commented that the strategy described by Ms. Aveiro is good and should be seriously considered by the Board. He referred to his experience with Act 51 that did not address all details and, therefore, there is a need to repeal certain provisions of the Act. As Ms. Aveiro and her team have accomplished much thus far, they would probably be able to identify these areas and be able to convince the Legislators that this would be a good way to proceed.

Ms. Aveiro added that she further believes that the Legislature is very interested in the State properties which is why a 2-year moratorium on the demolition of State public housing was included in the Act. She also referred to a recent tour of the State public housing projects by the legislative housing and homeless task force, which expressed much interest in these properties such as privatizing its management or leasing/selling the properties as other options.

Should the Board approve this concept, then staff would propose this in the transition plan to the Legislature and have the agencies split accordingly. Ms. Aveiro acknowledged that the Legislature however would make the final decision as to the approval of the positions and budgets.

Director Thompson commented that it may appear unusual to have a PHA whose expertise is in housing management yet another agency who is financing and developing these projects but not managing, have these projects in its inventory because of its ownership. There may be a different approach to the problem organizationally that could be explored.

Ms. Aveiro agreed, however, with the project-based accounting for the PHA, cost allocations would then have to be implemented for the State projects. This can be done but does complicate things for the PHA side. Whereas on the FD side, the State-owned projects would be a separate branch.

Chairman Sted summarized the pros and cons of the issue as having two separate entities doing the same thing--managing public housing. Yet, on the other hand, when there is an area that needs much work and attention, the best way would be to carve it out and give it to a "swat" team and leave the rest of the organization unencumbered to do its daily operations and let the "swat" team focus on the problem area. Ms. Aveiro appears to be basically creating a "swat" team for the federal public housing and separating the rest from that.

Bill Woods, a member of the general public, commented that from the public's perception, it is already difficult to provide input to the various governmental agencies that the public needs to address. This makes it an extremely difficult process for the housing issues. State policies would be affected in the long term.

The Chair thanked Mr. Woods for his comments and asked if there were any further comments by the Board.

Director Thompson stated that he admired the enthusiasm shown by the Executive Director. However, during the last 18 months of the agency, he believes that there has been and continues to be tremendous progress being made. Director Thompson further expressed his disappointment in a finding of the Affordable Housing Task Force's Report that the housing finance area was secondary to the issues of public housing. He did not believe that this was true.

He believed that the agency has faced the MOA successfully. Yet, because of recommendations that were made, the agency will be split into two entities. As this is a major decision, he would like to have more time to think it through and do a better job in delivering a plan as a Board member. He further stated that he has discussed this with Director Smith who agrees with this delay.

Ms Aveiro asked if the Board would allow to hear directly from staff that may share her enthusiasm for the split.

Chairman Sted then asked members of the staff who were present if they had any comments.

Finance Branch Manager Darren Ueki stated that it has been a challenge in trying to make the organization work together over the past eight years. However, ultimately, Mr. Ueki stated that he believed that it would be beneficial to both sides that the split go forward. The transition team has worked extremely hard to ensure that both organizations will operate efficiently after the split is completed.

Acting Administrative Services Officer Patti Miyamoto stated that for the PHA side, it would simplify matter immensely if all the Federal programs were on one side for reporting purposes, i.e. Real Estate Assessment Center (REAC) scores. Although State and Federal funds are kept separate, it would be a big step forward to have the programs in separate organizations as well.

There being no further comments from staff, Director Thompson requested that before the Board adjourns, that the Board meet in Executive Session to consult with its legal counsel to discuss the duties and obligations of the Board as they may relate to personnel matters of the agency.

Designee Oliva then moved, seconded by Director King

EXECUTIVE
SESSION

That the Board meet in Executive Session at 11:07 a.m. to consult with its legal counsel regarding the duties and obligations of the Board.

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Designee Oliva moved, seconded by Director Thompson

ADJOURN-
MENT

That the meeting be adjourned at 12:00 p.m.

The motion was unanimously carried.

LILLIAN KOLLER
Secretary

Approved: